

BEFORE THE
SENATE COMMERCE, SCIENCE AND TRANSPORTATION COMMITTEE
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STATEMENT

Submitted by
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Mr. Chairman, thank you for holding this hearing.

First, let me begin by identifying myself. My name is Rob Quartel, and I am a

former Member of the US Federal Maritime Commission. I serve today as President of the Jones Act Reform Coalition; the nation's largest group of domestic rail and waterway shippers, some 1 million-company members strong, working through 55 affiliated national trade associations. We are joined in our position here by five of the nation's foremost tax and consumer groups – including the National Taxpayers Union, Americans for Tax Reform, and Citizens Against Government Waste -- and by dozens of individual companies, large and small, across every state and sector of the economy. Those we represent include the American Association of Exporters and Importers, the Steel Manufacturer's Association, E.I. DuPont de Nemours, J. R. Simplot, McDonald's, Chevron, and numerous independent petroleum, mining and agricultural product companies – all of which share the same interest in Jones Act reform.

Mr. Chairman, the Jones Act is, to say the least, an emotional issue. Passed as a stealth amendment to the Merchant Marine Act of 1920, the law was never considered by a committee, never debated on the floor, passed on a voice vote. Yet it has taken on the status of a myth. While the law was originally passed as special interest legislation to protect a domestic shipping monopoly to the then colony of Alaska from foreign competition, its supporters early on learned to wrap it in the flag. You will hear its defenders later today describe it as the godsend of the maritime industry – that it generates some 124,000 jobs, that it has created and supports a vast and mighty fleet of some 44,000 of the most modern and efficient vessels in the world, that it is the bulwark of America's defense, not only creating jobs for merchant mariners but undergirding American shipbuilding capacity in times of peace.

In reality, it is none of these things.

Sadly, what little domestic fleet the United States has left – some 114 self-propelled vessels over 1000 tons – *is one of the oldest and least modern in the industrialized world.* Our deepwater coastal fleet of 2500 ships at the end of World War II has been replaced with a fleet of barges because ship operators – despite the rhetoric you will later hear – have decided that it costs too much to build and man a ship in the United States. Sixty shipyards have gone out of business while the Jones Act “protected” them from competition and the last ships to be constructed in the United States – built at the Newport News Shipyard – cost nearly three times the world price to build, some \$90 million apiece for vessels that sell on the world market for \$32 million each. Only 4200 jobs remain in the deepwater domestic fleet, over half of which will disappear along with the remaining fleet in the next eight years as nearly 65 tankers – the bulk of what is left in the “fleet” – are retired and not replaced. *Far from being a national security asset, the Act is a liability – President Bush and Sec. Dick Cheney suspended the Act during the Gulf War so we could move petroleum supplies! In fact, only one rampless ro-ro, beached in Puerto Rico and perhaps – perhaps – two aging tankers even made it into the war.*

The truth is that the Act distorts shipping and national intermodal transportation

markets – taking perhaps as much as \$14 billion or so in 1998 dollars out of the national economy annually and eliminating some \$4 billion in federal tax revenues in the process – for a gain of perhaps \$900 million in monopoly rents to the handful of ship operators which benefit from its market protections. In essence, the Act, by stifling competition, has made the cost of shipping so high that cargoes have been gradually diverted over the years from ships to rail, truck, barges, pipeline – and even aircraft -- instead. This raises prices throughout the nation's transportation system. Many US shippers are unable to find a ship to transport their products at any cost, and when a rare ship is available, the costs are so uneconomical that they are seldom used.

Foreigners, of course, face no such restrictions. If I may turn our opponents arguments on their head, imports – produced with cheap foreign labor, paying no US taxes, obeying no US environmental or social policy laws -- may be brought in to compete against our American made products using market-priced international shipping. So, *the Jones Act also encourages imports in domestic industries in which Americans ought to be competitive, like steel, agriculture, energy production and so on.*

The Jones Act exacerbates our energy and environmental situation as well. Today, over 53 percent of the petroleum used in the United States is produced abroad, undermining not only energy policy but making us continually vulnerable to supply interruptions. The cost of transporting oil – and later petroleum product additives like MTBE's (the price of which by one industry estimate may be raised by up to 9 cents per gallon) -- in Jones Act vessels is a large culprit.

I said that the Jones Act has a negative impact on the environment. One small coastal freighter of 100 containers – none of which we have in the fleet because it costs too much to build one here in the United States – traveling from Maine to Miami would produce a third less pollution and save \$40,000 in road coast versus the trucks that now carry those cargoes instead.

And the aging of our fleet – it is now nearly 23 years old on average, in an industry in which the depreciation schedule and retirement of the asset is often less than 20 years – and the conversion of what remains to barges carries with it an environmental consequence, too. A recent analysis of the Oil Spill Liability Trust Fund usage reveals that, from August 1990 to September 1997, that, in incidents costing the Fund some \$283 million in clean-up costs, 150 barge accidents – 3.7% of the total number -- accounted for over 35% of the costs of the Fund. Oil and product tankers, on the other hand, accounted for only 1.5% of incidents and 1.2% of the costs.

The Act, in its present state, not only harms shippers and American consumers from Arizona to Hawaii to Alaska – but harms the industry itself.

According to both congressional, Maritime Administration and private studies, some 50-70 percent of the operating cost difference between a Jones Act and a competitive deepwater international vessel lies in the excess costs attributed to the

US-build requirement. A GAO study of the Alaskan trade, for example, found \$161 million in costs just in that trade alone.

Because it costs so much above market to build a ship in the United States, not only do potential competitors find it too expensive to invest – but so too do existing Jones Act players. Thus, the Jones Act becomes a barrier to entry into these markets as well. This in turn creates a competition premium which is added to the already high baseline cost.

If there were a single thing that the Congress could do, then, to make Jones Act markets work better, it would be to remove the US-build requirement, in whole or in part, from the doing business conditions of the Act.

That is why we support S.2390 “The Freedom to Transport Act of 1998” introduced recently by Senators Brownback and Helms.

The Bill is very narrowly drawn so as to leave the Jones Act intact. But, following the history of the Act, the bill would allow some wiggle room – a fourteenth proviso – that would allow American flag companies to bring foreign-built ships into service in domestic deepwater commodity markets – the markets most in need of capacity. These ships would have to fly the US flag, operate under an American company, adhere to American standards, use US crews, pay US taxes. As an incentive to bring ships under the American flag, the bill would remove a clause left in the shipping statutes from the Civil War intended to punish Yankee ship operators who fled – and allow these new American ships to flag out and back in without penalty in order to capture international market business during slow periods.

One criticism of the bill you may later hear is that some fear it will leave some existing owners holding the bag – ships in their inventory bought at a high US-price. We would support on their behalf an amendment that would allow accelerated depreciation not only for existing deepwater commodity vessels, but for any ship built in a US-shipyard and placed in these markets in the future. This special depreciation schedule would have almost no effect on the budget as the cost of accelerating depreciation on the \$200 or so million in undepreciated assets left in the deepwater Jones Act fleet would be quickly offset by income taxes on the new earning streams created by the addition of new vessels to the American Jones Act fleet. We are discussing such an amendment with members of the House Ways and Means staff and hope this committee would find that to be a valuable addition.

Mr. Chairman, this bill would be good for consumers because it would increase the supply of deepwater ships, provide additional capacity in the rail and truck system, and reduce prices for intermodal transportation across the board.

It would lead to the renewal of the Jones Act fleet because ship operators would not only replace existing and retiring tonnage, but be able to do so at a much lower cost.

It would provide thousands of new jobs for American merchant mariners and longshoremen who have lost them in the shift from ships to trains.

In doing these two things, it would also enhance our nation's security by providing new, more efficient ships that are militarily useful, and by renewing the manpower pool that has shrunk so dramatically over the last two decades.

It would reduce environmental pollution by slowing the growth of trucks, reduces road damage, and eliminate a substantial portion of small oil spills now resulting from the conversion of the deep draft fleet to barges. And it would help us in our efforts at national energy conservation.

It will even help the shipyards from which you will hear later today. As these new ships come in, they will have to be brought up to US standards – requiring time and labor in US shipyards. As the fleet is renewed, they will find that their experience increases and – not too long from now – those who want to will find that they are able to compete against shipyards operating across the seas for domestic commercial business.

Mr. Chairman, this bill is a win-win for everyone. We commend you for holding these hearings on it, and Senators Brownback and Helms for introducing it.

Thank you.